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RUEHJM/AMCONSUL JERUSALEM PRIORITY 0139

S E C R E T SECTION 01 OF 02 BERLIN 001050

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E.O. 12958: DECL: 07/31/2033
TAGS: [ETTC](#) [EPET](#) [PREL](#) [IR](#) [GM](#) [EINV](#) [PINR](#) [ECON](#) [PGOV](#)
ENRG, ETRD
SUBJECT: GERMAN CHANCELLERY APPROVED GAS DEAL IN IRAN, BUT
IS BLOCKING LARGER LNG PROJECTS

REF: BERLIN 1038

Classified By: Economic Minister-Counselor Bob Pollard for reasons 1.4(b) and (d).

11. (C) Summary: German Chancellery sources report that it knew of and approved the decision by Germany's export control agency (BAFA) to permit Steiner-Prematechnik-Gastec's (Steiner) export of machinery related to the conversion of natural gas to fuel to Iran. Despite press reports alleging political interference in BAFA's decision, the agency claims it performed an extensive interagency review and acted strictly on the technical merits of the case. Multiple senior German government officials confirmed BAFA's story. Further, various interlocutors contended that the project is not related to the production of liquified natural gas (LNG), but rather to the production of compressed gas for use in automobiles. The government has provided no export credit guarantees or other assistance to Steiner. Meanwhile, we heard that Chancellor Merkel is discouraging major German firms from any involvement in LNG projects in Iran. End Summary.

The Steiner Case

12. (SBU) On July 28th the German daily "Siegener Zeitung" reported on BAFA's year-long review and ultimate approval this February of Steiner's proposal to construct three liquefied natural gas (LNG) plants in Iran. The project was reportedly valued at 100 million euros and would have capacity of 10,000 barrels per day. The article alleged that Hartmut Schauerte (Parliamentary State Secretary at the Federal Ministry of Economics and the Federal Government's Commissioner for Small and Medium Sized Enterprises) had pressured BAFA to decide the case. (In fact, both Schauerte and the Steiner firm claimed that his efforts had sealed the deal.)

BAFA's Role

13. (C) BAFA flatly rejected the newspaper's account. On July 30th, Emboffs independently contacted BAFA Vice President Olaf Simonsen and Georg Pietsch, BAFA Director General for Export Controls, as well as Martin Lutz (Foreign Trade Law Division, Ministry of Economics), for a readout. The BAFA officials' unanimous message was that their agency had performed a meticulous and objective review of the Steiner case, and reached a decision free from any outside political influence. Incidentally, the law did not require Steiner to seek BAFA's review of its case; it did so on its

own volition, seeking an informal notice that they could present to German customs authorities upon export.

14. (S) According to our contacts, BAFA made its decision solely on legal and technical grounds, determining that Steiner's request violated no German or international export restrictions. Further, they claimed BAFA's review ensured that no equipment in Steiner's request was subject to Wassenaar, Australia Group, Missile Technology Control Regime (MTCR) or Nuclear Suppliers Group (NSG) export restrictions.

As a semi-autonomous agency reporting to the Ministry of Economics, we further learned, BAFA makes its decisions without consideration of foreign policy concerns and operates within a German statutory (constitutional) framework providing the private sector a presumptive right to export unless specifically prohibited by domestic or international law and commitments. Karl Wendling, the Economic Ministry's Deputy Director General for Foreign Trade Law, separately confirmed to EMIN that this was the normal procedure, and explained that BAFA had examined Steiner's equipment to ensure that there was "no possibility" of misuse for military or nuclear purposes. Yet because of the project's destination (Iran) and monetary value, BAFA initiated an extensive interagency review process of the application involving the Ministries of Economics and Foreign Affairs (and, as suggested by Pietsch, German intelligence services).

Foreign Policy Review by Chancellery and MFA

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15. (C) Because of the potential sensitivity of the case, the government carefully reviewed the deal on foreign policy grounds, the Charge d'Affaires learned in a July 31 call from Ulrich Wilhelm, Chancellor Merkel's Spokesperson. Other sources -- including Dr. Andreas Nicolin, the Chancellery's chief of the Foreign Trade Policy division, and Ambassador Viktor Elbling, MFA's Commissioner for International Energy Policy -- emphasized that the German Government had no legal grounds on which to deny Steiner's application; that the project's work is not to liquefy natural gas, but rather to prepare it for use as vehicle fuel; estimated the project's value was closer to 67 million euros (about \$105 million, not the 100 million euros initially reported); and affirmed that Steiner had received no export credit guarantees or other assistance from the government.

"Informal Pressure" against LNG Projects

16. (C) The government also made a clear distinction between the Steiner case and Iran's prospective LNG projects. Nicolin told EMIN that the very highest levels of the Chancellery, including Merkel herself, are applying "informal pressure" on large Germany companies to discourage their involvement in three large LNG projects in Iran. Nicolin stated that Iran lacks the necessary LNG technology and, therefore, these projects remain "on ice". Elbling likewise told us that the German government has made it "very clear" to German companies that they should not seek any LNG work in Iran. (Note: The German companies inquiring about possible LNG deals with Iran may include E.ON, Vattenfall, and Wintershall, a BASF subsidiary.) Nicolin restated the German government's commitment to obstruct trade with Iran under existing laws and resolutions while voicing the oft-heard refrain that the government is under tremendous pressure from business to allow expanded exports to Iran (REF A).

Worries about lawsuits against the Government

¶7. (C) There is a legal dimension to worry about, too. Elbling explained that, given German companies' statutory presumptive right to export, BAFA is subject to possible lawsuits from the private sector in German Administrative Courts for alleged wrongful denials of export permission or failure to approve applications in a reasonably timely manner. BAFA in particular fears a high profile, precedent-setting suit. If a company were to prevail in a suit against BAFA on this point, Elbling speculated, it could mean a flood of additional exports to Iran.

¶8. (C) Comment: Germany's position on Iranian exports continues to be that it can only prohibit them if there are clear legal reasons to do so. At the same time, policy makers understand that this could harm Germany's image as a partner in international efforts to alter the Iranian regime's behavior and policies. Still, the German government clearly has some discretion in these matters. Post recommends that rather than issue a sweeping complaint against German business ties with Iran, Washington may wish to consider a message focusing on oil and gas technology, given Iran's vulnerability and dependence upon foreign assistance in this sector.
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